

TAX UPDATE

2010 TAX TIPS NEWSLETTER

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Greetings to clients and friends! Outlined here are some key things you should know regarding the recently signed 2,000 plus page Wall Street and Consumer Protection Act. With legislative focus on health care and Wall Street reform, pending tax legislation is still on the back burner. Included in this Tax Update are tips you should consider in light of this pending legislation.

Wall Street Reform Bill

What it Means to You

If you are like most Americans, reading a summary of the Wall Street Reform and Consumer Protection Act might better serve as an alternative to sleeping pills. So what does the bill mean to you?

1 Limited Use of Debit/Credit Cards. You may start seeing minimum charge amounts for debit and credit cards. Visa and Mastercard rules are being loosened up to allow retailers to reject unprofitable transactions. Often using your debit card for a \$1.00 can of soda can cost the retailer more to process the transaction than the purchase is worth.



2 Home Mortgages Will Change. Most pre-payment penalties will be eliminated. Complex mortgage products will need to pass through the new Consumer Protection Bureau. Lenders are required to ensure that borrowers can pay the loans that they sell and the bill pro-

hibits lenders from steering borrowers to more expensive loan options. Refinancing fees will also be reduced.

3 Access to Your Credit Score. You'll be able to see your credit "score" free if you are refused for a mortgage. Currently you have the right to see your credit report free once per year, but until now you had to pay to see your credit score.

4 Beware Car Loans. Read car loans carefully as car lenders are exempt from oversight by the Consumer Protection Bureau.

5 Higher limits on Deposit Insurance. Effective immediately, the FDIC has permanently raised the limit from \$100,000 on insured individual deposits to \$250,000.

6 No more \$30 fee for a \$2.00 overdraft. You'll need to "opt-in" to expensive bank overdraft programs. Banks can no longer automatically charge you high fees for overdrafts. You will probably start seeing letters from your bank disclosing how overdraft fees are calculated and asking for your permission (opt-in) to their overdraft policy.

7 Lower Prices? The Federal Reserve will try to ensure that fees charged to merchants by credit and debit card companies are reasonable and in proportion to the cost of processing the transaction. Because of this, you may see more discounts for cash payments OR

Be Aware of More Tax Law Changes

Tip 1 Don't Forget Your Minimum Required Distribution

There is a minimum required distribution from retirement accounts for those aged 70 ½ years old or over. In 2009, this distribution requirement was waived for one year due to the sharp decline in investment values during the recession. In 2010, the minimum distribution is required once again. If not sure how much you must take out of your accounts please call.

Tip 2 Time to Review Capital Gains

At the end of 2010 the long-term capital gains tax rates are going up. The current rate of 15% (0% if you are in the 15% or lower income tax bracket) will be reset to earlier levels. The amount will, in all likelihood, be 20%.

Tip 3 Plan for less in Dividends

Through 2010 tax rates on ordinary dividends are taxed at long-term capital gains rate (15% maximum). Starting next year these same dividends will be taxed as ordinary income (up to 39%).

Tip 4 Unemployment Benefits Taxed Once Again

In 2009, the first \$2,400 of unemployment benefits an individual received was federal tax-free. This provision does not apply to 2010 so plan ahead.

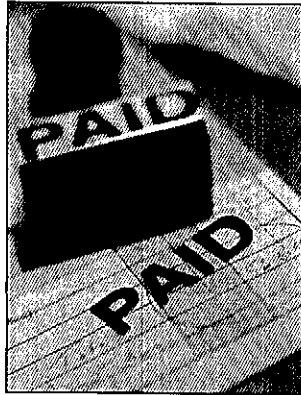
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Pending Legislation - Be Prepared!

Many tax provisions in 2009 have expired and will catch taxpayers by surprise if legislation is not passed to extend the laws into 2010. Here are some tips while we are in limbo:

Tip 1 Keep Sales Tax Receipts for Major Purchases.

In 2009 you could opt to deduct either state income taxes OR the state and local general sales taxes paid as an itemized deduction on your Federal Tax Return. This option goes away without an extension. So if you purchase a large item like an automobile make sure to keep the receipt...just in case.



Tip 2 Teachers, Document Your Expenses.

The \$250 out-of-pocket expense deduction on your taxes is not currently available in 2010 without a law change, but don't assume it will not occur. Continue to save your receipts.

Tip 3 Save Energy Efficient Purchase Documents.

Many of the credits available for purchasing new energy efficient improvements for your home have also expired. But again, save the receipts as many of these provisions may also be extended through 2010.

Tip 4 Don't Plan on Property Tax Standard Deduction.

Many taxpayers who did not itemize last year were able to receive an increased Standard Deduction up to \$1,000 for Property Tax payments. This provision has not yet been extended into 2010.

Tip 5 Hold off on That Direct IRA Contribution to Charity.

The tax-free distribution directly from individual retirement accounts (IRAs) to qualified charities for seniors has not yet been extended through 2010.

Most experts agree that these provisions will be extended into 2010, but until they are all we can do is be prepared.

Wall Street Reform Becomes Law

Recap of the Major Provisions

On Wednesday, July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Here are some of the key measures:

- **No More "Too Big to Fail" Bailouts.** The federal government will now have the power to seize and liquidate failing financial firms while limiting taxpayer financial exposure. Large financial institutions also face stricter capital, leverage, and liquidity requirements.
- **New Consumer Protection Bureau.** The bill establishes a new Consumer Protection Bureau with the task of monitoring mortgages, credit cards, and other loan products.
- **New Financial Stability Oversight Council.** The Council is designed to serve as an "advanced warning system" to expose risks that might threaten the economy.
- **Oversight of Derivatives.** Derivative trades must now pass through clearing houses or swap repositories to increase market transparency and allow better oversight.
- **The "Volker" Rules.** These rules are designed to limit big, insured banks' activities in speculative derivatives and stock investments. The rules also require big banks to sell off much of their interest in hedge funds and private equity.
- **Reduced Fees on Debit/Credit Cards.** The law will curb the fees retailers are required to pay banks and credit unions on debit and credit card transactions.
- **Oversight of Credit Rating Agencies.** New rules require more objective review and accountability for ratings from the firms that rate financial products.

Many of these rules will take years to implement, and there is divided opinion over the effectiveness of the bill. It will be years before we will understand the full effect of this historic bill's passage.

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even lower prices as merchants pass their credit card expense savings back to you.

8 Emergency Mortgage Relief. The bill provides for \$1 billion in bridge loans to qualified unemployed homeowners with reasonable prospects for re-employment to help cover mortgage payments until the homeowner is re-employed.

9 New Bank Fees? You will need to review your bank's fee structure. Because banks will be losing some current revenue streams, expect banks to start looking for fees elsewhere. Be on the lookout for new fees, such as charges for checking accounts or online banking.



10 No More Nasty Letters Required. If the "Act" is correct you'll no longer have to send nasty letters to your representatives regarding taxpayer bailouts. If institutions gamble and fail, they can no longer look to us to make them whole.

This publication provides summary information regarding the subject matter at time of printing. Please call with any questions on how this information may impact your situation.